

THE WORLD; Ending Aid to Rich Farmers May Hurt the Poor Ones

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BY now, it's almost a truism: the protectionist agricultural farm policies of the big, rich nations -- mainly the European Union, the United States and Japan -- are essentially barring poor countries from development.

That belief is what led to much of the bickering last week between trade ministers from rich and poor countries at the World Trade Organization meeting in Hong Kong. Many development advocates argued that subsidies and tariff protections for farmers in industrialized countries lock poor farmers out of the rich world market. "High tariffs keep them out of key markets, and tariffs and subsidies together drive down the world price of their exports," wrote Paul Wolfowitz, the head of the World Bank, in a recent opinion article in *The Los Angeles Times*. "Without the income that trade could provide, it is their children who go hungry and who are deprived of clean water, medicines and other basic necessities of life."

Virtually every economist will agree that agriculture is one of the world economy's most distorted sectors, and that dismantling industrialized nations' farm supports would give many farmers in the developing world better access to markets in wealthy countries.

However, some economists are warning that if the industrialized world ends its farm subsidies and lowers its tariff barriers to agricultural imports, poor countries may not be helped, but harmed.

"Everybody is saying that the last barrier to the development of these poor countries are the subsidies in rich countries. That's the wrong diagnosis," said Arvind Panagariya, an economics professor at Columbia University. "The least developed countries would be hurt by agricultural liberalization by the developed countries."

In a paper published in April, three economists -- Nava Ashraf from Harvard, Margaret McMillan from Tufts, and Alix Peterson Zwane from the University of California, Berkeley, concluded that agricultural supports boosted the per capita income of two-thirds of 77 developing nations, including most of the poorest countries, like Burundi and Zambia.

Developing countries that are big agricultural exporters -- including Brazil, Argentina, Indonesia, Thailand -- are undoubtedly hurt by the farm subsidies. But these countries are not among the poorest.

Rather, many poor nations are big importers of farm goods, so they benefit from the lower agricultural prices caused by support policies in rich countries. Tariffs and subsidies keep cheaper imports out of the industrialized countries and encourage their local farmers to produce more. This raises the domestic prices of their farm goods. Yet, as it artificially boosts production of agricultural products, it pushes worldwide prices down.

A 1999 study by economists Alex McCalla of the University of California, Davis, and Alberto Valdes of the World Bank, found that 105 of 148 developing countries, including 48 of the 63 poorest nations, imported more food than they sold. Some poor countries export nonfood agricultural products, like cotton. Yet even including these commodities, 85 of 148 developing countries and 30 of the 63 poorest imported more than they exported.

True, some very poor nations, like Guyana, are food exporters. Yet even for them, Mr. Panagariya argues, the end of subsidies and tariffs might prove counterproductive, because some of their farm products can already enter the industrialized nations duty free.

For instance, most farm goods from the world's least developed countries get into the European Union without paying high tariffs under a preferential program called "Everything but Arms." This allows the poorest nations to sell within the union at the artificially inflated European price. If the European Union were to dismantle its protections, letting its price for farm goods fall, these poor country exporters would be worse off.

Mr. Panagariya concedes there is one important exception to this argument: cotton. Europe doesn't produce or subsidize it. But the United States and China provide enormous subsidies to domestic producers. Depressed world cotton prices are intensely hurting African cotton farmers.

Yet even in this case, there is another side to the argument. Bangladesh, one of the world's poorest countries, imports cotton to feed its textile factories. Bangladesh isn't clamoring for an end to cotton subsidies because higher prices would hurt its main export industry.

William Cline, an economist at the Center for Global Development, argues that this analysis omits the fact that more than half the world's poor are in countries that are net agricultural exporters or that could become net exporters if the distortions were eliminated.

Yet what virtually all economists agree on is that developing countries could help themselves greatly by liberalizing their own agricultural markets.

Poor countries often heavily protect their farmers, supporting vast uncompetitive agricultural sectors and drawing investment and labor into farming that would be better used elsewhere. Two World Bank economists, Kym Anderson and Will Martin, concluded that if the world were to dismantle its agricultural protections, most of the benefits for developing countries would come from the reduction of their own systems of farm support. "Liberalization in the rich countries is a good thing, but in my opinion a small thing," said William Masters, a professor of resource economics at Purdue University and an expert on agriculture in Africa. "Poor countries' own barriers are the biggest constraint to their own development."

Photo: No Support -- Cotton subsidies in the United States hurt African farmers, but not those in Bangladesh. (Photo by Thierry Gouegnon/Reuters)